

AUDIT REPORT

TOWN OF WARNER, OKLAHOMA

JUNE 30, 2014



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TOWN OF WARNER, OKLAHOMA
JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Warner, Oklahoma

Report on the Financial Statements

We were engaged to audit the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Warner, Oklahoma, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

Basis for Disclaimer of Opinion

During the audit year, the management of the Town of Warner received incorrect professional advice from previous paid consultants, and

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therefore did not maintain a complete, accurate double-entry general ledger system. In addition, reconciliations of cash, accounts receivable, accounts payable, income and expenses were not prepared correctly. The Town's records also do not permit the application of other auditing procedures to cash, accounts receivable, accounts payable, income and expenses.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2016, on our consideration of the Town of Warner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Warner's internal control over financial reporting and compliance.

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Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

April 26, 2016

TOWN OF WARNER, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2014 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 691,161	\$ 208,823	\$ 899,984
Other Tax Receivable	-	91,768	91,768
Trade Accounts Receivable	-	358,013	358,013
Prepaid Items	-	44,192	44,192
Total Current Assets	691,161	702,796	1,393,957
<u>Noncurrent Assets:</u>			
Restricted Investments	-	36,708	36,708
Land	41,500	9,602	51,102
Other Capital Assets, Net of Accum. Depr.	1,214,516	1,787,851	3,002,367
Total Noncurrent Assets	1,256,016	1,834,161	3,090,176
TOTAL ASSETS	1,947,176	2,536,957	4,484,133
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts Payable	9,793	239,668	249,460
Customer Deposits	-	35,443	35,443
Current Portion of Long-Term Debt	25,354	77,862	103,216
Total Current Liabilities	35,147	352,973	388,120
<u>Long-Term Liabilities:</u>			
Notes Payable	68,175	831,061	899,236
Less: Current Portion of Long-Term Debt	(25,354)	(77,862)	(103,216)
Total Long-Term Liabilities	42,821	753,199	796,020
TOTAL LIABILITIES	77,968	1,106,172	1,184,140
<u>NET POSITION</u>			
Net investment in capital assets	1,187,841	966,392	2,190,940
Restricted for:			
Debt Service	-	36,708	36,708
Other Purposes	-	-	-
Unrestricted	681,369	427,685	1,072,346
TOTAL NET POSITION	\$ 1,869,209	\$ 1,430,785	\$ 3,299,994

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF WARNER, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 453,800	\$ -	\$ 124,895	\$ -	\$ (328,906)
Public Safety	293,948	52,332	-	-	(241,616)
Highways & Streets	101,471	-	-	-	(101,471)
Community Center	39,785	-	-	-	(39,785)
Parks & Recreation	-	-	-	-	-
Library	997	-	-	-	(997)
Total Governmental Activities	<u>890,001</u>	<u>52,332</u>	<u>124,895</u>	<u>-</u>	<u>(712,775)</u>
Business-type activities:					
Water, Sewer & Sanitation	581,419	664,633	-	142,592	225,806
Depreciation	123,846	-	-	-	(123,846)
Total Business-type Activities	<u>705,265</u>	<u>664,633</u>	<u>-</u>	<u>142,592</u>	<u>101,960</u>
Total	<u>\$ 1,595,267</u>	<u>\$ 716,965</u>	<u>\$ 124,895</u>	<u>\$ 142,592</u>	<u>\$ (610,815)</u>

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (712,775)	\$ 101,960	\$ (610,815)
General revenues:			
Taxes:			
Sales & Use Tax	709,685	-	709,685
Franchise Tax	52,200	-	52,200
Cigar Tax	1,108	-	1,108
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	2,359	-	2,359
Motor Vehicle Tax	4,290	-	4,290
Lease Income	18,778	-	18,778
Donations	7,700	-	7,700
Miscellaneous Income	25,846	-	25,846
Interest Income	8,084	43	8,126
Transfers - Internal Activity	(120,025)	49,113	(70,912)
Total general revenues & transfers	<u>710,026</u>	<u>49,155</u>	<u>759,181</u>
Changes in net position	(2,750)	151,115	148,366
Net position - beginning	1,802,372	1,276,595	3,078,967
Net position - prior year adjustment	69,587	3,075	72,661
Net position - ending	<u>\$ 1,869,209</u>	<u>\$ 1,430,785</u>	<u>\$ 3,299,994</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF WARNER, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 101,888	\$ 589,273	\$ 691,161
TOTAL ASSETS	<u>\$ 101,888</u>	<u>\$ 589,273</u>	<u>\$ 691,161</u>
LIABILITIES & FUND EQUITY			
LIABILITIES:			
Accounts Payable	\$ 2,224	\$ 7,568	\$ 9,793
TOTAL LIABILITIES	<u>2,224</u>	<u>7,568</u>	<u>9,793</u>
FUND BALANCES:			
Nonspendable	-	-	-
Restricted	-	225,997	225,997
Committed	-	355,708	355,708
Assigned	-	-	-
Unassigned	99,663	-	99,663
TOTAL FUND BALANCES	<u>99,663</u>	<u>581,705</u>	<u>681,368</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 101,888</u>	<u>\$ 589,273</u>	<u>\$ 691,161</u>

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$2,237,051, net of accumulated depreciation of \$981,035, are not financial resources and, therefore, are not reported in the funds.	1,256,016
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(68,175)</u>
Net Position of Governmental Activities	<u><u>\$ 1,869,209</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF WARNER, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Non-Major Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Sales & Use Tax	\$ 360,925	\$ 348,760	\$ 709,685
Franchise Tax	52,200	-	52,200
Cigar Tax	1,108	-	1,108
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	-	2,359	2,359
Motor Vehicle Tax	-	4,290	4,290
Grants	124,895	-	124,895
Fines & Forfeitures	-	52,332	52,332
Lease Income	-	18,778	18,778
Donations	7,700	-	7,700
Miscellaneous Income	8,918	16,928	25,846
Interest Income	62	8,021	8,084
TOTAL REVENUES	555,809	451,468	1,007,277
EXPENDITURES:			
Current:			
General Government	407,155	32,986	440,142
Public Safety	152,033	143,937	295,970
Highways & Streets	-	78,733	78,733
Community Center	-	37,566	37,566
Parks & Recreation	-	-	-
Library	997	-	997
Capital Outlay	-	24,631	24,631
TOTAL EXPENDITURES	560,185	317,853	878,038
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,376)	133,615	129,239
OTHER FINANCING SOURCES (USES):			
Transfers In	4,365	30,291	34,656
Transfers Out	(45,629)	(109,051)	(154,681)
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(41,264)	(78,761)	(120,025)
NET CHANGES IN FUND BALANCES	(45,640)	54,854	9,214
FUND BALANCE - BEGINNING OF YEAR	133,037	469,530	602,567
FUND BALANCE - PRIOR YEAR ADJUSTMENT	12,266	57,320	69,587
FUND BALANCE - END OF YEAR	\$ 99,663	\$ 581,705	681,368

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF WARNER, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	9,214
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Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Capital debt obligation principal payments		37,173
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Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

Capital Debt Proceeds		-
		-

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		24,631
Depreciation expense		(73,767)

	\$	(2,750)
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF WARNER, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014**

	Warner Public Works Authority Enterprise Fund June 30, 2014
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 208,823
Other Tax Receivable	91,768
Trade Accounts Receivable	358,013
Prepaid Items	44,192
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Total Current Assets	702,796
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Noncurrent Assets:	
Restricted Investments	36,708
Land	9,602
Other capital assets, net of accumulated depreciation	1,787,851
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Total Noncurrent Assets	1,834,161
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TOTAL ASSETS	2,536,957
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<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Accounts Payable	239,668
Customer Deposits	35,443
Current Portion of Long-Term Debt	77,862
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Total Current Liabilities	352,973
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Noncurrent Liabilities:	
Notes Payable	831,061
Less: Current Portion of Long-Term Debt	(77,862)
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Total Noncurrent Liabilities	753,199
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TOTAL LIABILITIES	1,106,172
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NET POSITION:	
Net investment in capital assets	966,392
Restricted for debt service	36,708
Unrestricted	427,685
TOTAL NET POSITION	\$ 1,430,785
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF WARNER, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Warner Public Works Authority Enterprise Fund June 30, 2014
<u>OPERATING REVENUES:</u>	
Charges for Services:	
Water	\$ 471,698
Sewer	373,490
Sanitation	(208,184)
Miscellaneous Income	27,629
TOTAL OPERATING REVENUES	664,633
<u>OPERATING EXPENSES:</u>	
Personal Services	206,989
Materials & Supplies	196,079
Other Services & Charges	146,663
Depreciation	123,846
TOTAL OPERATING EXPENSES	673,576
NET OPERATING INCOME (LOSS)	(8,943)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	43
Interest Expense	(31,689)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(31,646)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(40,589)
Capital Contributions	142,592
Transfers in	49,113
Transfers out	-
CHANGE IN NET POSITION	151,115
TOTAL NET POSITION - BEGINNING	1,276,595
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	3,075
TOTAL NET POSITION - ENDING	\$ 1,430,785

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF WARNER, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>June 30, 2014</u>
<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 417,396
Other Cash Receipts	-
Payments to Suppliers for Goods & Services	(327,497)
Customer Deposits Received, Net of Refunded	(923)
Net Cash Provided (Used) by Operating Activities	<u>88,976</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	-
Transfers from other funds	49,113
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>49,113</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction/purchase of capital assets	142,592
Purchases of Capital Assets	(172,377)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(78,306)
Interest paid	(31,689)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(139,780)</u>
<u>Cash Flows from Investing Activities:</u>	
Decrease (Increase) in Restricted Investments	(35)
Interest Income	43
Net Cash Provided (Used) by Investing Activities	<u>8</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,683)
Cash & Cash Equivalents, Beginning of Year	207,431
Cash & Cash Equivalents, Prior Year Adjustment	3,075
Cash & Cash Equivalents, End of Year	<u><u>\$ 208,823</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ (8,943)
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation	123,846
(Increase)Decrease in Accounts Receivable	(247,237)
(Increase)Decrease in Prepaid Items	-
Increase(Decrease) in Accounts Payable	222,234
Increase(Decrease) in Customer Deposits	(923)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 88,976</u></u>
See Accountant's Audit Report & Notes Which Accompany These Financial Statements	

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Warner
Blended Component Units:	Warner Utilities Authority (WUA)

PRIMARY GOVERNMENT

The Town of Warner, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a five member board of trustees. The trustees elect a mayor from their own body. The Town provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (water, sewer, and trash), library, community center and parks & recreation.

These financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government.

BLENDED COMPONENT UNITS

The Warner Utilities Authority (WUA) was created pursuant to an amended and restated Trust Indenture dated February 5, 1990 to acquire, construct, lease and operate the water and sewer facilities for the benefit of the Town of Warner, Oklahoma. The WUA is empowered to incur debt for the purposes stated above. The water and sewer systems owned by the Town have been leased to the WUA. The WUA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by a board consisting of five trustees identical with the Town. The

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

WUA is exempt from State and Federal Income Taxes and is reported as an enterprise fund.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed, in whole or in part, by fees charges to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes assets, liabilities, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds.

Governmental Fund Types

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for revenue sources that are legally restricted to expenditures for a specific purpose or designated to finance particular functions of the Town. The special revenues funds used by the town include: Dedicated Sales Tax/Fire Police, Community Center and Street, Municipal Court, Sales Tax and Water Project. Other Special Revenue Funds considered as non-major funds include: Street & Alley, Park and Recreation, and Child Registry and Investigation.

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Proprietary Fund Types

The WUA Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as water, sewer and sanitation, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented used the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

Deposits and Investments

For financial statement presentation and for purposes of the statements of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

Oklahoma Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Town can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

Restricted Cash

The restricted cash is the result of financial requirements of promissory notes between the Warner Utilities Authority and the Oklahoma Water Resources Board which consist of funds held in Debt Service and Debt Service Reserve Accounts. Under the terms and provisions of the promissory notes, these funds are to be maintained so long as the notes are outstanding. In addition certain funds are restricted for Warner Utilities Authority customer deposit refunds.

Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents, and certain liabilities. The Town's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Statement of Net Position. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as internal balances.

Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of governmental fund-type and proprietary fund inventories are recorded as expenditures when purchased rather than when consumed.

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Capital Assets

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, when capital assets are purchased, they are capitalized and depreciated. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Town maintains a capitalization threshold of \$1,000. Improvements are capitalized, the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following ranges of estimated useful lives:

Buildings	40 Years
Improvements, other than buildings	10 Years
Machinery, furniture and equipment	5-15 Years
Utility property and improvements	7-40 Years

The Town has not maintained accurate capital asset records to support historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost is not readily available. The amount by which this departure would affect the assets, net position, and expenses of the Governmental Activities is not readily determinable.

Fund Financial Statements

In the Fund Financial Statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as the government-wide statements.

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation time. Full-time and part-time regular employees who have been employed continuously for at least 12 months are granted

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

vacation benefits in varying amounts to specified maximums depending on tenure with the Town. The Town has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

Long-Term Debt

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Net Position/Fund Balance Classifications

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

E. REVENUES, EXPENDITURES AND EXPENSES

Program Revenues

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

General Government
Public Safety

Operating and capital grants
Operating and capital grants

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on consideration of the Town's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts, grants and other matters. That report is an integral part of an audit performed in compliance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

Finance-related Legal & Contractual Provisions

As required, the annual budget was prepared and filed with the State Auditor and Inspector's office.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Town for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2014, the Town held deposits of approximately \$936,692 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS

Town of Warner:

	6/30/2013			6/30/2014	
	Balance	Additions	Retirements	Balance	
<u>Governmental Activities:</u>					
Capital assets not being depreciated:					
Land	\$ 41,500	\$ -	\$ -	\$ 41,500	
Construction in progress	-	-	-	-	
Total capital assets not being depreciated	41,500	-	-	41,500	
Other capital assets:					
Buildings	1,127,554	-	-	1,127,554	
Equipment	595,720	6,100	-	601,820	
Infrastructure	447,646	18,531	-	466,177	
Total other capital assets	2,170,920	24,631	-	2,195,551	
Less: Accum. Depreciation for:					
Buildings	305,223	30,132	-	335,355	
Equipment	100,018	21,571	-	121,589	
Infrastructure	502,027	22,064	-	524,091	
Total Accumulated Depreciation	907,268	73,767	-	981,035	
Other capital assets, net	1,263,652	(49,136)	-	1,214,516	
Governmental activities capital assets, net	\$ 1,305,152	\$ (49,136)	\$ -	\$ 1,256,016	

The additions to accumulated depreciation include only the current year depreciation expense of \$73,767. The asset additions included A/C unit for community center and a street project.

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Warner Utilities Authority:

	6/30/2013			6/30/2014
	Balance	Additions	Retirements	Balance
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 9,602	\$ -	\$ -	\$ 9,602
Construction in progress	-	-	-	-
Total capital assets not being depreciated	9,602	-	-	9,602
Other capital assets:				
Buildings	470,578	-	-	470,578
Equipment	587,929	-	-	587,929
Infrastructure	3,273,676	172,377	-	3,446,053
Total other capital assets	4,332,183	172,377	-	4,504,561
Less: Accum. Depreciation for:				
Buildings	145,637	11,474	-	157,111
Equipment	2,009,204	79,821	-	2,089,025
Infrastructure	438,022	32,551	-	470,574
Total Accumulated Depreciation	2,592,864	123,846	-	2,716,710
Other capital assets, net	1,739,320	48,531	-	1,787,851
Business-type activities capital assets, net	\$ 1,748,922	\$ 48,531	\$ -	\$ 1,797,453

The additions to accumulated depreciation include only the current year depreciation expense of \$123,846. The asset additions include system projects.

NOTE 5 - LONG-TERM DEBT

GOVERNMENTAL FUND TYPES:

NOTES PAYABLE:

<u>Terms and Collateral</u>	<u>Outstanding Debt</u> <u>June 30, 2014</u>
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Armstrong Bank in the amount of \$251,476.65 with a fixed interest rate of 5.00% with equal monthly payments of principal and interest of \$2,347.21 maturing January 2017. The note was used to finish construction of Commercial building on 3rd Ave, Warner, Oklahoma.

\$ 68,175.21

Armstrong Bank in the amount of \$20,000.00 with a fixed interest rate of 3.99% with equal monthly payments of principal and interest of \$1,000.00 maturing June 2014. The note was used to purchase a 2013 Ford Police car for the Police Department.

\$ -

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Total Notes Payable Outstanding \$ 68,175.21

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2014:

	Balance 7/1/2013	Additions	Deductions	Balance 6/30/2014
Armstrong Bank - Bldg Loan	\$ 91,894	\$ -	\$ (23,718)	\$ 68,175
Armstrong Bank - Police Car	13,454	-	(13,454)	-
	<u>\$ 105,348</u>	<u>\$ -</u>	<u>\$ (37,173)</u>	<u>\$ 68,175</u>

A summary of future maturities of principal and interest are as follows:

Year Ending June 30,	Armstrong Bank - Building Loan Principal	Interest	Total
2015	\$ 25,354	\$ 2,813	\$ 28,167
2016	26,651	1,516	28,167
2017	16,171	259	16,430
2018	-	-	-
2019	-	-	-
2020-2024	-	-	-
Total	<u>\$ 68,175</u>	<u>\$ 4,588</u>	<u>\$ 72,763</u>

WARNER UTILITIES AUTHORITY:

NOTES PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2014

Oklahoma Water Resource Board (OWRB) in the amount of \$435,000.00 with a variable interest rate, payable in semi-annual payments including principal, interest and administrative fees, secured by pledge of revenue of the water, sewer and garbage facilities owned by the Town, but leased to the Utility Authority. The note Matures August 15, 2024. (FAP-96-0051-L)

\$269,850.00

Oklahoma Water Resource Board (OWRB) in the amount of \$246,149.77 with a fixed interest rate of 3.128%, payable in semi-annual payments including principal, interest and a .05% administrative fees secured by the gross income and revenue of the water, sewer and garbage facilities owned by the Town, but leased to the Utility Authority. The note Matures March 15, 2020. (ORF-96-002-CW)

\$ 92,384.69

Armstrong Bank to be service by the WUA with a fixed interest rate of 4.9% with equal monthly

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

payments of principal and interest of \$2,263.74
maturing May 15, 2023. \$191,457.39

Armstrong Bank to be service by the WUA with
a fixed interest rate of 4.9% with equal monthly
payments of principal and interest of \$3,780.54
maturing December 8, 2021. \$277,368.84

Total Notes Payable Outstanding \$830,060.92

The following is a summary of long-term debt additions and deductions
for the year ended June 30, 2014:

	Balance 7/1/2013	Additions	Deductions	Balance 6/30/2014
OWRB - FAP-96-0051-L	\$ 286,650	\$ -	\$ (16,800)	\$ 269,850
OWRB - ORF-96-0022-CW	105,938	-	(13,553)	92,385
Armstrong Bank - WUA #1	208,462	-	(17,005)	191,457
Armstrong Bank - WUA #2	308,317	-	(30,948)	277,369
	<u>\$ 909,367</u>	<u>\$ -</u>	<u>\$ (78,306)</u>	<u>\$ 831,061</u>

A summary of future maturities of principal and interest are as follows
(principal only shown for the variable rate loan):

Year Ending June 30,	OWRB FAP-96-0051-L Principal
2015	\$ 13,450
2016	19,300
2017	20,800
2018	22,600
2019	24,400
2020-2024	155,200
2025	14,100
Total	<u>\$ 269,850</u>

Year Ending June 30,	OWRB ORF-96-0022-CW Principal	Interest	Admin. Fee	Total
2015	\$ 14,056	\$ 2,111	\$ 445	\$ 16,612
2016	14,571	1,667	374	16,612
2017	15,120	1,194	301	16,614
2018	15,787	604	225	16,615
2019	16,471	-	145	16,615
2020	16,380	-	62	16,442
Total	<u>\$ 92,385</u>	<u>\$ 5,575</u>	<u>\$ 1,552</u>	<u>\$ 99,512</u>

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Year Ending June 30,	Armstrong Bank - WUA #1		
	Principal	Interest	Total
2015	\$ 17,857	\$ 8,984	\$ 26,841
2016	18,752	8,089	26,841
2017	19,692	7,149	26,841
2018	20,679	6,162	26,841
2019	21,715	5,126	26,841
2020-2023	92,764	9,080	101,844
Total	<u>\$ 191,457</u>	<u>\$ 44,591</u>	<u>\$ 236,048</u>

Year Ending June 30,	Armstrong Bank - WUA #2		
	Principal	Interest	Total
2015	\$ 32,499	\$ 12,868	\$ 45,366
2016	34,128	11,239	45,366
2017	35,838	9,529	45,366
2018	37,634	7,733	45,366
2019	39,520	5,847	45,366
2020-2022	97,751	5,767	103,518
Total	<u>\$ 277,369</u>	<u>\$ 52,982</u>	<u>\$ 330,351</u>

NOTE 6 - FUND BALANCES

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted amounts are described in Note 1 above.

Fund Balances

Town of Warner, Oklahoma
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2014

	General Fund	Non- Major Funds	Total Governmental Funds
FUND BALANCES:			
Restricted for:			
Street & Alley	\$ -	\$ 13,254	\$ 13,254
Police Bond	-	3,732	3,732
Sales Tax & Water Project		209,011	209,011
Committed to:			
Police Fund	-	64,877	64,877
Fire Fund	-	35,476	35,476
Community Center	-	19,403	19,403
Infrastructure	-	235,952	235,952
Unassigned	99,663	-	99,663
Total	<u>\$ 99,663</u>	<u>\$ 581,705</u>	<u>\$ 681,368</u>

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 - COMMITMENTS & CONTINGENCIES

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

Grant Programs

In the normal course of operations, the Town participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 8 - PENSION PLANS

The Town participates in defined contribution plans for its policemen, firemen and municipal employees. The plans are administered by the various retirement systems of the State of Oklahoma. The town contributes an amount equal to 12% of the base salary for its policemen participants; \$60 per participant for its firemen; and 4% of the base salary for its other municipal employees. In addition, policemen participants contribute an amount equal to 8% of their base salary and the municipal employees, other than firemen, contribute 3% of their base salary.

All contributions, both employer and employees, are transmitted to the various retirement systems for administration. The reporting entity's contributions were \$15,097 for the Town and \$10,166 for the business-type entity.

TOWN OF WARNER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The Town is required to make annual contributions of \$60 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage on all taxes collected on premiums collected by insurance companies and an appropriation by the State of Oklahoma. The Town's contributions to OFPRS were \$1,260 for 2014.

NOTE 9 - RISK MANAGEMENT

The Town of Warner is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for other specific risks of loss, including workers compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The Town is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for all claims submitted to it during the plan year.

As a member of the Plan, the Town is required to pay fees set by the Plan according to an established payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant of the Plan. The State Insurance Fund provided coverage in excess of the Loss Fund so the Town's liability for claim loss is limited to the balance of the fund.

NOTE 10 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through April 26, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2014.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Town of Warner, Oklahoma

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Warner, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Warner, Oklahoma's basic financial statements, and have issued our report thereon dated April 26, 2016, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Warner's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Warner's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Warner's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 14-01 & 14-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Warner's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Warner's Response to Findings

Town of Warner's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Warner's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

April 26, 2016

TOWN OF WARNER, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2014

INTERNAL CONTROL FINDINGS:

Item 14-01: Operating Transfers

Criteria: The transfers between the individual funds should zero out.

Condition: The transfers in and out of the individual funds of the Town do not zero out each other.

Cause/Effect: Not posting funds transfers correctly between accounts and reviewing financial statements monthly to check for errors has cause the problem. The outside service provider made adjustments to transfers in order to get the different funds in the Town's general ledger to balance because the general ledger was so far out of balance. The funds balance but the transfers do not zero out.

Recommendation: The Town needs to make sure each transfer is recorded correctly and that all transfer accounts balance.

Response: The Town is aware of the problem.

Item 14-02: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town did not maintain a complete, accurate double-entry general ledger system.

Cause/Effect: Adjustments were made in order to get the funds in the general ledger to balance. The financial statements contain misstatements and omit financial information.

Recommendation: The Town needs to get an accountant to help with the bookkeeping.

Response: The Town has a new bookkeeper helping with the accounting process. The inaccurate financial records were a result of incorrect professional advice from previous paid consultants.